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# City of Chattanooga

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**Kenneth O. Fritz**  
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**Ann Shaffer**  
**Special Counsel**

May 9, 2003

Via FedEx

Ms. Sara Kyle, Chairman  
Tennessee Regulatory Authority  
460 James Robertson Parkway  
Nashville, TN 37243

RE: *Petition of Tennessee American Water Company to  
Change and Increase Certain Rates and Charges so as to  
Permit it to Earn a Fair and Adequate Rate of Return on  
its Property used and Useful in Furnishing Water Service  
to its Customers, Docket No. 03-00118.*

Dear Chairman Kyle:

Enclosed for filing is the original and 13 copies of the City of Chattanooga's Supplemental Response to Requests for Discovery Concerning Expert Witnesses from Tennessee American Water Company.

Should you have any questions, please contact me.

Sincerely

Michael A. McMahan  
Special Counsel

MAM/add

Enclosures

cc: Certificate of Service List

**BEFORE THE TENNESSEE REGULATORY AUTHORITY  
NASHVILLE, TENNESSEE**

**IN RE:**

**PETITION OF TENNESSEE AMERICAN  
WATER COMPANY TO CHANGE AND  
INCREASE CERTAIN RATES AND  
CHARGES SO AS TO PERMIT IT TO  
EARN A FAIR AND ADEQUATE RATE  
OF RETURN ON ITS PROPERTY USED  
AND USEFUL IN FURNISHING WATER  
SERVICE TO ITS CUSTOMERS**

**Docket No. 03-00118**

**CITY OF CHATTANOOGA'S SUPPLEMENTAL RESPONSE TO  
REQUESTS FOR DISCOVERY CONCERNING EXPERT WITNESSES  
FROM TENNESSEE AMERICAN WATER COMPANY**

Comes now, Intervenor City of Chattanooga and files the following responses to the request for discovery served by Petitioner Tennessee American Water Company ("Petitioner" or "TAWC").

**DISCOVERY REQUEST NO. 2:**

Identify each person whom you expect to call as an expert witness at any hearing in this docket, and for each such expert witness:

- (a) identify the field in which the witness is to be offered as an expert;
- (b) provide complete background information, including the expert's current employer as well as his or her educational, professional and employment history, and qualifications within the field in which the witness is expected to testify, and identify all publications written or presentations presented in whole or in part by the witness;

- (c) provide the grounds (including without limitation any factual bases) for the opinions to which the witness is expected to testify, and provide a summary of the grounds for each such opinion;
- (d) identify any matter in which the expert has testified (through deposition or otherwise) by specifying the name, docket number and forum of each case, the dates of the prior testimony and the subject of the prior testimony, and identify the transcripts of any such testimony;
- (e) identify for each such expert any person whom the expert consulted or otherwise communicated with in connection with his expected testimony;
- (f) identify the terms of the retention or engagement of each expert including but not limited to the terms of any retention or engagement letters or agreements relating to his/her engagement, testimony, and opinions as well as the compensation to be paid for the testimony and opinions;
- (g) identify all documents or things shown to, delivered to, received from, relied upon, or prepared by any expert witness, which are related to the witness(es)' expected testimony in this case, whether or not such documents are supportive of such testimony, including without limitation all documents or things provided to that expert for review in connection with testimony and opinions; and
- (h) identify any exhibits to be used as a summary of or support for the testimony or opinions provided by the expert.

**RESPONSE:** (a) Finance – Rate of return on equity and debt.

(b) Marlin L. Mosby, Jr., and W. Kevin Thompson are employed by Public Financial Management of Memphis, Tennessee and Virginia Rutledge in the

Orlando, Florida office. They are all experts in finance. (See attached resumes.) They are preparing a report which will be transmitted as soon as received.

(c) The market rate of return for Tennessee American Water Company ("TAWC") is between 6.00% and 7.50% based on the following:

1. TAWC is now a part of one of the world's largest utility companies, RWE AG. As such, RWE AG's capital cost can be passed to TAWC. Comparables for TAWC should include large, diversified utility companies similar to RWE AG.
2. RWE AG's cost of capital is 8.0% for water stated in their annual report. RWE's cost of capital represents an average cost based on services in Great Britain and Ireland; Europe, Near East and Africa; America; and Asia-Pacific Rim (including China). Capital costs for an underlying double-A rated U.S. entity, should be below RWE's average.
3. The capital structure for a U.S. water company should be debt heavy, with a mix of capital approaching 60% debt and 40% equity.
4. TAWC's rate of return should be based on the cost of borrowing an additional dollar today.
5. Long-term, taxable debt for water and sewer companies is approximately 5.15%. Such rate is based on an eleven (11) year duration bond and such rate can be further lowered through the use of swaps.
6. The rate of return on equity for a large, well-diversified utility company is approximately 9.5%.

(d) Marlin L. Mosby, Jr. testified for the City of Memphis in the case subsequently reported as *Tennessee Municipal League, et al. v. Brook Thompson, in his official capacity as the State Election Coordinator, et al.*, 958 S.W.2d 33 (Tenn. 1997), but he does not have a copy of the trial transcript. His testimony involved the economic impact on a larger city relative to annexation of territory by an adjacent smaller city.

W. Kevin Thompson has not testified in any such cases.

(e) The experts have consulted with City of Chattanooga Finance Officer David Eichenthal and Michael A. McMahan, special counsel for the City of Chattanooga.

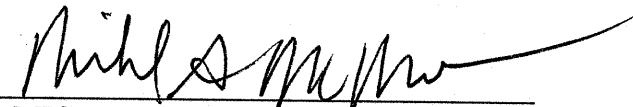
(f) No written engagement letters. The experts' cost fee will be on an hourly rate not expected to exceed \$5,000.00, plus expenses.

- (g) **Documents provided to Public Financial Management:**
1. **Petition and Supporting Testimony.**
  2. **Interrogatories and Requests for Production of Documents by Chattanooga Manufacturers Association (First Set) to TAWC Nos. 18, 28, and 29.**
  3. **Interrogatories and Requests for Production of Documents by Attorney General to TAWC No. 4. (Annual 10K Report for 2001 & Annual 10Q Report for 2002).**
  4. **American Water Works 2002 Operational and Financial Report Management Discussion and Analysis.**
  5. **Consolidated Financial Statements of American Water Works Company, Inc. and Subsidiary Companies for the Years Ended December 31, 2002 and December 31, 2001.**
- (h) **No exhibits have been prepared at this time.**

Respectfully submitted,

CITY OF CHATTANOOGA, TENNESSEE  
RANDALL L. NELSON, CITY ATTORNEY

BY:



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PHILLIP A. NOBLETT, BPR #10074  
801 Broad Street, Suite 400  
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### CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing document has been served on this the 9<sup>th</sup> day of May, 2003, upon the following:

<input type="checkbox"/> Hand	T. G. Pappas (#2703)
<input type="checkbox"/> Mail	George H. Masterson (#6241)
<input checked="" type="checkbox"/> Facsimile	R. Dale Grimes (#6223)
<input checked="" type="checkbox"/> Overnight	BASS, BERRY & SIMS PLC
	AmSouth Center
	315 Deaderick Street, Suite 2700
	Nashville, TN 37238-3001
<input type="checkbox"/> Hand	Vance L. Broemel, Esq.
<input checked="" type="checkbox"/> Mail	Assistant Attorney General
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	P.O. Box 20207
	Nashville, TN 37202
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<input checked="" type="checkbox"/> Facsimile	414 Union Street, Suite 1600
<input type="checkbox"/> Overnight	Nashville, TN 37219
<input type="checkbox"/> Hand	David C. Higney, Esq.
<input checked="" type="checkbox"/> Mail	Grant, Konvalinka & Harrison, P.C.
<input checked="" type="checkbox"/> Facsimile	633 Chestnut Street, 9 <sup>th</sup> Floor
<input type="checkbox"/> Overnight	Chattanooga, TN 37450

  
MICHAEL A. McMAHAN

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## Resumes

### Virginia Rutledge

position: **Senior Managing Consultant**  
email: **[rutledgev@publicfm.com](mailto:rutledgev@publicfm.com)**

**back**

Virginia Rutledge joined PFM in 1998 as a Senior Managing Consultant in the Orlando, Florida office.

Ms. Rutledge's clients are located throughout the U.S. and primarily include public power utilities. Projects have covered a broad range of topics, including development of comprehensive financial plans; a study of transfer policy options; assisting in the unbundling of the business of a utility; development of new bond covenants; and the study of synergies and economics of purchasing another utility, as well as traditional bond sales. Ms. Rutledge is also involved in PFM's Strategic Municipal Consulting practice.

Prior to joining PFM, Ms. Rutledge served as Vice President and Chief Financial Officer for the Orlando Utilities Commission and Chief Financial Officer for the Massachusetts Municipal Wholesale Electric Company (MMWEC). Ms. Rutledge also served as Finance Director for the cities of Memphis, Tennessee and Austin, Texas. In addition to her career as a finance professional, Ms. Rutledge is past president of the Governor's Finance Officers Association (GFOA).

Ms. Rutledge received her BA (with honors) in math and statistics and a MA in Economics, public finance specialization, from the University of Florida.

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## W. Kevin Thompson

position: **Senior Managing Consultant**  
email: **thompsonk@publicfm.com**



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Resumes

Mr. Thompson joined PFM in 2002. Prior to joining PFM, he was part of Ernst & Young's Structured Finance Group. Mr. Thompson has over 15 years experience advising clients on the structure of asset-backed transactions, operational procedures surrounding issuance and administration of securities and valuation of subordinated bonds and retained interests. Since joining PFM, Mr. Thompson's services to primarily larger municipalities have included debt structuring, asset liability matching, fixed-variable rate debt management, capacity analysis and policy and procedure development.

Mr. Thompson has a Bachelor of Arts degree in economics from Rhode Island College and is a Chartered Financial Analyst. He is also a member of the Association for Investment Management and Research and the Meriden Chapter of AIMR.